

FACT SHEET RELATED TO UTILITY RESERVES - FY 2014

In an era of social media and instant communications, complex issues easily get oversimplified or misrepresented. We want to make sure that doesn't happen. We've provided additional details related to our reserves and the reserve policy and, as always we are available to discuss this further.

3-POINT SUMMARY OF FACTS

1. RPU complies with the Council-approved reserve policy. Electric and Water Utility reserves are within the Reserve Policy approved by Council in June 2001. The Electric and Water reserves are at 52% and 94% of the maximum.
2. RPU rates are significantly lower than neighboring utilities with savings of \$90 million per year. Lower rates result in about \$90 million saved by Riverside customers each year. These savings are utilized in local spending and local economic activity not available to neighboring communities.
3. RPU's strong reserves not only absorb unexpected cost and revenue fluctuations without sudden rate increases but will also be utilized to fund vital utility infrastructure projects to ensure safe delivery of clean water and reliable electricity. Without these reserves the current drought response would likely have resulted in a significant rate increase. This has not happened. When RPU has excess reserves it will recommend plans to the Board and Council to dispose of these reserves in a manner that benefits all ratepayers and complies with California law. As we emerge from recession, and in the midst of an historic drought, it very much seems like the reserve strategy is one of foresight and sound business judgement.

Repeatedly over the last 10 years, both the electric and water utility bond ratings were upgraded by independent national rating agencies. Higher bond ratings result in significantly lower borrowing costs and lower rates for all RPU customers. The current level of water reserves is largely responsible for maintaining its "AAA" rating which saves ratepayers millions of dollars in borrowing costs. Only 6% of all S&P rated water and sewer utilities in the entire country even have a AAA rating. That's something to be proud of.

Utility infrastructure is extremely capital-intensive. Over the next several years, Riverside will be making infrastructure improvements, as we have done for the past 120 years. Some water projects include a recycled water system, a rubber dam to capture storm water and recharge the groundwater basin, a new treatment plant, and other projects that will come to Board and Council over the next several months. Vital electric projects will include a second electric transmission line to the city. Using reserves, as well as debt, to fund these projects is a sound business practice that benefits all customers versus the short-sighted tactic of spending reserves thoughtlessly, while guaranteeing reactionary rate increases.

As we move forward with the work we've started together, both in building the utility of the future, and helping our customers cope with this epic drought, we welcome the opportunity to clear up some of these misconceptions.

BACKGROUND INFORMATION RELATED TO THESE ISSUES - FAQ

Q: What is the maximum reserve for RPU, as per Council approved policy?

A: The Council-approved Reserve Policy for RPU, adopted on June 26, 2001, states that “maximum reserves will be set at 100% of annual operating revenues. If excess reserve levels are met, the Board of Public Utilities and City Council will be notified as soon as possible and appropriate plans to dispose of the excess shall be made. Over/under reserve determinations shall be made in conjunction with the year-end accounting process.”

Q. What are RPU’s current reserves and are these reserves within Council-approved policies?

A. The tables below shows 2014 year-end Electric and Water results:

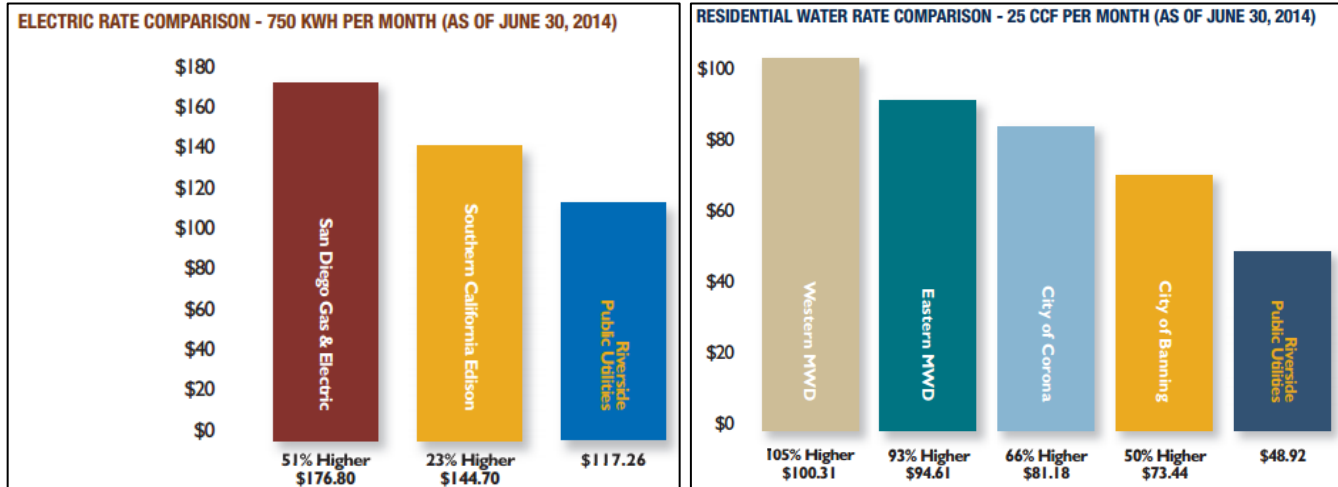
- Reserves are \$177.8 million and \$64.6 million respectively
- Annual operating revenue is \$344 million and \$68.7 million respectively
- Electric and Water reserves were at 52% and 94% of the maximum
- Electric and Water reserves are compliant with policy

		Electric		Water	
		2003	2014	2003	2014
Total Unrestricted Cash & Reserves		47.2	210.9	20.3	86.2
Operating Cash (Working Capital)		18.2	33.1	11.3	21.6
2001 Policy applies to Unrestricted Reserves	Unrestricted (Internally Restricted) Reserves:				
	Operating Reserves	-	131.0	9.0	35.5
	Competitive Transition Account	29.0	-	-	-
	Energy RM Reserve	-	30.0	-	-
	Regulatory Reserve	-	15.0	-	-
	Property Reserve	-	-	-	26.0
	Recycled Water Reserve	-	-	-	3.1
	Decommissioning Reserve	-	1.8	-	-
Total Unrestricted (Internally Restricted) Reserves		29.0	177.8	9.0	64.6
Operating Revenue		204.3	344.0	28.6	68.7

2014 Year-End	Electric	Water
Reserve Balance (M\$)	\$177.8	\$64.6
Reserve Maximum (M\$)	\$344.0	\$68.7
Reserve Within Council Policy (Yes/No)	Yes	Yes
Reserve as a percent of Maximum	52%	94%

Q. What are RPU water and electric rates in comparison to other utilities?

A. The charts below show that residential electric and water customers save a substantial amount of money due to lower RPU rates. Neighboring utilities charge as much as 51% to 105% higher.



Q: What infrastructure needs may require funding over and above the funding from current rates?

A: At the May 7th, joint meeting of the Board and City Council, plans related to Utility 2.0 were discussed. Detailed plans related to water and electric infrastructure that will be needed to provide essential utility services will be discussed over the next several months. The City Council and the RPU Board expressed a high level of interest and enthusiasm in engaging in dialogue to develop a common vision for this future. Infrastructure projects, which will cost several millions of dollars may include:

1. Water

- building the first phase of a recycled water system
- a rubber dam over the Santa Ana River to capture storm water and recharge the groundwater basin (in collaboration with Western Municipal Water District). Such a project increases our resiliency to drought.
- a new water treatment plant
- technology infrastructure to bring RPU to current standards
- replacing pipelines and associated plant that are degraded, failure of which could result in catastrophic loss of service

2. Electric

- second transmission line to ensure reliable service. Without a second transmission line, Riverside is open to catastrophic failure of electric service if the one line connecting it to the bulk transmission grid fails.
- technology infrastructure to bring RPU's infrastructure to current standards
- expanding RPU's fiber network to accommodate increased bandwidth needs for utility operations and community needs
- grid modernization to accommodate two way power flow for rooftop solar
- replacement of Springs generation in order to ensure reliability of local electric delivery

Estimates of the cost for each of these and other infrastructure projects have been developed and will be presented to the Board and City Council over the next several months. A link to the joint Council-Board workshop where the Utility 2.0 plan was initially discussed is at:
<https://riversideca.legistar.com/MeetingDetail.aspx?ID=396743&GUID=AC16F8E9-0BBA-4CF2-9EEB-527B1B442B1A&Options=info&Search=>

Q: What are RPU's plans related to updating the reserve policy?

A: The update to the Reserve Policy has already been identified in Utility 2.0, and will include a review of current and future risk. When RPU has excess reserves it will recommend plans to the Board and Council to dispose of these reserves in a manner that benefits all ratepayers and complies with California law. For example, an Asset Replacement Reserve is an idea that should be considered for inclusion in our policy. Additionally, the results of the 10-year pro-forma are expected to be updated at least once every two years and presented to the Board and City Council. The scan below is from the Utility 2.0 plan and was also included in the Council's Riverside 2.0 plan.

LONG RANGE IMPLEMENTATION PLAN OVERVIEW

CONTINUED

IMPLEMENT TEN YEAR FINANCIAL PRO FORMA~

PURPOSE:

Develop a ten year pro forma that shows the revenue, reserve, bond coverage ratio and rate impacts of most, if not all, utility initiatives. The data and analysis provided is for strategic planning and policy planning purposes and not for rate-making. New pricing models will also be studied and recommendations presented as part of rate adjustment proposals. This plan is required to ensure the utility is financially healthy under scenarios of competition, technology disruption, increased or reduced demand, regulatory and market risk. Implement ten-year financial plan.

INTERNAL PARTNERS:

Resources, Finance, Administration

EXTERNAL PARTNERS:

City of Riverside, Treasury

NEEDED RESOURCES:

Staff to research and review course of action to ensure the continued fiscal and business plans of RPU meets the goals of the Utility as set forth by the Board of Public Utilities and the City Council.

POTENTIAL BARRIERS:

Changes in abilities to provide reliable water and energy services at low costs to benefit the community. Continued drought, changing conditions in energy market.

TASKS IN PROGRESS:

2015 Complete Plan
 Present Plan for Board and City Council
 Followed by Annual Updates